

1
2
3
4 UNITED STATES DISTRICT COURT
5 WESTERN DISTRICT OF WASHINGTON
6 AT TACOMA

7 ORGANIC ENERGY CONVERSION
8 COMPANY, a Washington limited
9 liability company,

10 Plaintiff,

11 v.

12 FLAMBEAU RIVER PAPERS, LLC, a
13 Wisconsin limited liability company;
14 FOUNTAINHEAD ENGINEERING,
15 LTD., a Michigan limited liability
16 company,

17 Defendants.

CASE NO. C09-5008BHS

ORDER DENYING
DEFENDANTS' MOTION FOR
SUMMARY JUDGMENT AND
GRANTING DEFENDANTS'
ALTERNATIVE MOTION
TO STAY

18 This matter comes before the Court on Defendants' (1) motion for summary
19 judgment (Dkt. 24); (2) motion, in the alternative, to stay proceedings (Dkt. 25); and (3)
20 motion for protective order suspending discovery (Dkt. 26). The Court has considered the
21 pleadings filed in support of and the declarations filed in opposition to these motions and
22 the remainder of the file and hereby denies the motion for summary judgment, grants the
23 motion to stay proceedings, and declines to rule on the motion for a protective order for
24 the reasons stated herein.

25 **I. PROCEDURAL HISTORY**

26 On January 8, 2009, this matter was removed from Pierce County Superior Court
27 (Case No. 08-2-14411-4). Dkt. 1. On January 9, 2009, Defendants moved the Court to
28 dismiss the matter or, in the alternative, to stay the case. Dkt. 6. On March 17, 2009, the
Court denied Defendants' motion to dismiss and declined to stay the case. Dkt. 18. On
November 5, 2009, Defendants filed a motion for summary judgment (Dkt. 24); a motion,

1 in the alternative, to stay proceedings (Dkt. 25); and a motion for protective order
2 suspending discovery (Dkt. 26).

3 **II. FACTUAL BACKGROUND**

4 Some of the parties to this action are also involved in a related matter in the Price
5 County Circuit Court in Wisconsin (hereinafter “Wisconsin Court”). Defendants in this
6 matter move the Court to either enter summary judgment in their favor (Dkt. 24) or, in the
7 alternative, stay the proceedings pending the outcome of their Wisconsin case.

8 Defendants made a similar motion earlier in this litigation, which was denied. *See* Dkt.
9 18. The facts outlined in that order denying Defendants’ motion are relevant here:

10 **A. The Wisconsin Action**

11 On June 19, 2008, Flambeau, Johnson Timber Corporation and
12 William Johnson (collectively “Wisconsin Plaintiffs”) filed a complaint
13 against Organic Energy Conversion Company (“OECC”) in Price County
14 Circuit Court in Wisconsin. Dkt. 6-2. Johnson Timber is a Wisconsin
15 corporation, and Mr. Johnson is its principal shareholder and chief
16 executive officer. Mr. Johnson, a resident of Wisconsin, is also the CEO of
17 Flambeau, as well as the sole member of Summit Lake Management, LLC,
18 which is the managing member of Flambeau.

19 According to the complaint, in February 2008, OECC and Flambeau
20 entered into a non-binding memorandum of understanding (“MOU”), which
21 called for Flambeau to make a payment of \$600,000 to OECC that was to
22 be used exclusively by OECC for the development and construction of a
23 specified product. Under the MOU, OECC and Flambeau were to
24 successfully test the product no later than April 1, 2008, and the product
25 was to be delivered to Flambeau’s Park Falls, Wisconsin facility no later
26 than May 1, 2008. Flambeau maintains that it paid the initial \$600,000 to
27 OECC for production and development of the product.

28 When it became apparent that OECC could not deliver the product as
promised, Mr. Johnson met with individuals purporting to be authorized
representatives of OECC in an attempt to find a business solution to the
problem. Those discussions led to the signing of a term sheet, which
expressed the parties’ desire to explore a joint-venture type relationship
relating to the product. Under the term sheet, all equipment and other items
necessary for completion of the product would be delivered to the Park
Falls facility, and OECC would dispatch an authorized representative to the
facility to “ensure the successful manufacture and assembly” of the product.
The Wisconsin Plaintiffs maintain that the term sheet is a non-binding
document “merely setting forth the good-faith intentions of the parties for
the structure of the joint-venture relationship. The term sheet
explicitly calls for subsequent agreements to be reached and entered into
between OECC and one or more of the [Wisconsin] Plaintiffs, although it
does not identify which specific parties are to be participants in the
contemplated joint venture.” *Id.* at 7. The term sheet also calls for a
subsequent operating agreement to be entered into as part of the joint

1 venture relationship. The Wisconsin Plaintiffs maintain that the parties have
2 not negotiated or entered into an operating agreement.

3 Additionally, the term sheet provided that once the operating
4 agreement has been executed and the joint venture established, Mr. Johnson
5 and/or one of the other Wisconsin Plaintiffs was to pay OECC \$1 million in
6 ten equal installments. The Wisconsin Plaintiffs maintain that, although no
7 joint venture had been established, Mr. Johnson, “as a gesture of good
8 faith,” caused the first installment to be made to OECC on May 2, 2008.

9 On May 28, 2008, Mr. Johnson received information from Butch
10 Sadikay, who identified himself as a 50% owner of OECC, “caution[ing]
11 Mr. Johnson from continuing to do business with OECC without further
12 discussion between them.” *Id.* at 8. Based on this information, as well as a
13 subsequent phone conversation, the Wisconsin Plaintiffs believed that “it
14 [did] not appear . . . that the individuals who signed the MOU and the term
15 sheet were authorized to do so on behalf of [OECC].” *Id.*

16 Flambeau contends that it demanded an accounting of the \$600,000
17 because OECC never completed the product. Flambeau further maintains
18 that OECC has requested an installment payment pursuant to the term sheet,
19 and that OECC characterized the term sheet as a “binding contract.”

20 In the Wisconsin action, the plaintiffs seek a declaratory judgment
21 that they owe no contractual obligations requiring payment to OECC. The
22 Wisconsin Plaintiffs also seek an accounting for the \$600,000 Flambeau
23 allegedly paid to OECC. OECC asserted several affirmative defenses in its
24 answer, including (1) lack of personal jurisdiction, (2) improper jurisdiction
25 and venue because key discussions and agreements took place in
26 Washington where key witnesses still reside, and (3) improper jurisdiction
27 and venue because Flambeau signed a written agreement promising that
28 disputes arising out of the terms of the parties’ relationship could only be
commenced in Pierce County, Washington. *Id.*, 14-15.

16 **B. OECC’s Washington Action**

17 On November 10, 2008, OECC filed a complaint against Flambeau
18 and Fountainhead Engineering, Ltd. (“Fountainhead”), in Pierce County
19 Superior Court in Washington. Dkt. 1, 9-13. On January 8, 2009,
20 Defendants Flambeau and Fountainhead removed the Washington action to
21 this Court. *Id.*, 1-5. OECC alleges two causes of action: (1) breach of
22 contract based on Flambeau’s and Fountainhead’s alleged breach of a
23 mutual non-disclosure agreement (“MNDA”), and (2) conversion based on
24 Flambeau’s and Fountainhead’s alleged conversion of OECC’s intellectual
25 or other property. According to this complaint, OECC developed “valuable
26 and confidential technology and process for non-thermal drying of biosolids
27 and biomass.” *Id.* at 10. This technology and process was the subject of a
28 confidential patent application filed with the United States Patent and
Trademark Office on December 12, 2007. OECC agreed to give access to
this patent application to Flambeau and Fountainhead for the purpose of
furthering a possible business relationship between the parties to develop,
manufacture and sell a non-thermal biomass dryer to the timber industry
(referred to by the parties as the “Possible Transaction”). To that end, the
parties entered into the MNDA, which is dated December 11, 2007. The
MNDA provides in part:

Neither Party will use, or permit any of its Representatives to
use, any of the other Party’s Confidential Information for any
purpose other than in connection with the evaluation of the

Possible Transaction, and neither Party will make any such Confidential Information available to any Person for any other purpose whatsoever.
Dkt. 1 at 16.

The MNDA also includes a provision that requires “any legal proceedings arising out of the terms of [the MDNA] . . . be commenced in the courts located in Pierce County [Washington].” *Id.* at 21.

OECC alleges that Flambeau and Fountainhead “repudiated the existence of any business relationship with [OECC]” and claimed to have built their own non-thermal biomass dryer with the assistance of Mr. Johnson and Johnson Timber. OECC maintains that Defendants’ biomass dryer wrongfully uses OECC’s confidential information in violation of the MNDA.

Since entry of this Court’s order, the Wisconsin Court has also entered a decision and order. *See* Dkt. 27, Declaration of Bradley C. Fulton (Fulton Decl.), Ex. A (reproducing the Wisconsin decision). The Wisconsin Court (1) exercised jurisdiction over the matter and (2) entered summary judgment as to certain issues, including its conclusion that the MOU and the joint venture agreement (a.k.a., the term sheet) were non-binding documents. *Id.* at 7-10.

Absent from the Wisconsin Court’s summary judgment order was whether the MNDA, the subject of the instant matter, is a binding agreement. *See id.* Nonetheless, Defendants claim that the Wisconsin decision disposes of this action by leaving no material facts in dispute and thereby entitling them to summary judgment. Dkt. 24.

III. DISCUSSION

A. Defendants’ Summary Judgment Motion

Summary judgment is proper only if the pleadings, the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The moving party has the initial burden of establishing the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). If the moving party shows the absence of a genuine issue of material fact, the nonmoving party must go beyond pleadings and identify facts which show a genuine issue for trial. *Id.* at 324; *Hopkins v. Andaya*, 958 F.2d 881, 885 (9th Cir. 1992) (per curiam).

1 Defendants predicate their motion for summary judgment on the proposition that
2 the Wisconsin Court's entry of summary judgment regarding the MOU and the joint
3 venture agreement (a.k.a., the term sheet) acts to resolve the instant matter. *See* Dkt. 24.
4 However, the matter before this Court arises out of a dispute over the legal effect of the
5 MNDA, if any. *See, e.g.*, Dkt. 18 at 8. Previously, The Court denied Defendants' motion
6 to dismiss or stay this action because of its concern that the Wisconsin Court could not or
7 would not rule on the legal effect of the MNDA. *Id.* at 6-8 (order denying Defendants'
8 first motion to dismiss). In fact, the Wisconsin Court's summary judgment ruling did not
9 address or discuss the validity, if any, of the MNDA. Fulton Decl., Ex. A (reproducing
10 the Wisconsin Court's opinion)

11 Although the Wisconsin Court appears to have decided some facts that potentially
12 bear on the MNDA, Defendants do not adequately establish whether all relevant facts
13 surrounding the legal effect of the MNDA, if any, were decided by the Wisconsin Court.
14 *See id.*; *see also* Dkts. 24-25. Indeed, the Wisconsin Court never discussed the MNDA,
15 which is central to the matter before this Court. *See* Dkt. 18 (discussing the nature of the
16 MNDA and its bearing on the instant matter). As such, the Defendants have failed to meet
17 their initial burden of establishing the absence of a genuine issue of material fact. *Celotex*,
18 477 U.S. at 323.

19 Therefore, the Court denies Defendants' motion for summary judgment.

20 **B. Defendants' Alternative Motion to Stay**

21 Alternatively, Defendants move the Court to stay the proceedings before this Court
22 pending the outcome of the Wisconsin Court case. Dkt. 25. Plaintiff did not file a
23 response to this motion, but filed a declaration claiming that "nothing material has
24 changed since the court first denied [D]efendants' request for a stay." Dkt. 34,
25 Declaration of Nigel S. Malden (Malden Decl.) ¶ 7. However, the Court finds this
26 assertion without discussion insufficient to counter Defendants' position.

27 The Court initially declined to stay this matter because:
28

1 [T]here is substantial doubt as to whether the Wisconsin action will provide
2 complete and prompt resolution of the issues raised in the Washington
3 action. While the MNDA, the MOU, and the term sheet appear to be
4 interrelated, it is not clear that resolution of the dispute regarding the MOU
5 and term sheet will resolve the dispute regarding the MNDA. Even
6 assuming that the Wisconsin court could resolve Flambeau's claims
7 regarding the MOU, the term sheet, and the accounting of the \$600,000 it
8 paid OECC, it is not clear that the Wisconsin court could resolve OECC's
9 claim that Flambeau and/or Fountainhead used confidential information in
10 violation of the MNDA.

11 Dkt. 18 at 7-8. This reasoning was made before the case in Wisconsin had been
12 developed. *Id.* Since that ruling, the matter has proceeded in Wisconsin and the
13 Wisconsin Court has entered summary judgment regarding the MOU and the term sheet
14 (the joint venture agreement). Fulton Decl., Ex. A (reproducing the Wisconsin decision).
15 The Wisconsin Court will in due course also be deciding the accounting and other claims
16 remaining in that action, which may bear on this instant matter. Fulton Decl. ¶¶ 5-7 (trial
17 scheduled for March 24, 2010).

18 Defendants persuasively argue that the rulings of the Wisconsin Court, both on
19 summary judgment and those that will occur during the trial beginning March 24, 2010,
20 will either have some effect on the instant matter or completely resolve the instant matter.
21 *See* Dkt. 25 (discussing the interrelated nature of the two suits). Plaintiff does not directly
22 oppose this argument; rather, it simply claims that nothing material has changed since the
23 prior decision of this Court to deny the request for stay. Dkt. 34, Nigel Decl. ¶ 3.
24 However, at the time of that order (Dkt. 18), the Wisconsin Court had not entered any
25 findings of fact or conclusions of law. Thus, contrary to Plaintiff's position, the Court
26 finds the disposition of the Wisconsin case is itself a material change.

27 This Court previously noted that the MNDA, the MOU, and the term sheet appear
28 to be interrelated. Dkt. 18 at 8. To the extent the rulings in Wisconsin bear on this action,
it appears the Court may be bound by such rulings pursuant to the Full Faith and Credit
Act, 28 U.S.C. § 1738. This Act requires the federal court to "give the same preclusive
effect to a state-court judgment as another court of that State would give." *Exxon Mobil
Corp. v. Saudi Basic Indus. Corp.*, 544 U.S. 280, 293 (2005) ("a federal court may be

1 bound to recognize the claim- and issue-preclusive effects of a state-court judgment”). It
2 would therefore be in line with this Act and judicially efficient to stay this action pending
3 the outcome of the Wisconsin action. Additionally, the resolution of the Wisconsin action
4 will likely streamline this case. Staying this action while awaiting final determination of
5 the action in Wisconsin may also eliminate duplicative discovery, motions, and other
6 pretrial matters.

7 Therefore, the Court grants Defendants’ motion to stay this action pending the
8 outcome of the Wisconsin action; and the parties are ordered to schedule a status
9 conference with the Court immediately thereafter.

10 **C. Other Issues**

11 **1. Defendants’ Motion to Suspend Discovery**

12 Because the Court grants Defendants’ motion to suspend this action pending the
13 conclusion of the Wisconsin action (Dkt. 25), it need not rule on their motion to suspend
14 discovery (Dkt. 26).

15 **2. Plaintiffs Apparent 56(f) Motion**

16 Because the Court grants Defendants’ motion to suspend this action pending the
17 conclusion of the Wisconsin action (Dkt. 25), it need not rule on Plaintiff’s 56(f) motion
18 to continue Defendants’ motion for summary judgment. Dkt. 37, Malden Decl. ¶ 2.

19 **3. Sanctions**

20 Plaintiff’s request for sanctions is denied. Dkt. 34, Malden Decl. ¶ 4.
21
22
23
24
25
26
27
28

1 **IV. ORDER**

2 Therefore, it is hereby **ORDERED** as follows:

- 3 1. Defendants' motion for summary judgment (Dkt. 24) is **DENIED**.
4 2. Defendants' motion to temporarily suspend proceedings (Dkt. 25) until after
5 trial in Wisconsin and for a status conference immediately thereafter is
6 **GRANTED**.

7 DATED this 21st day of December, 2009.

8 
9

10 BENJAMIN H. SETTLE
11 United States District Judge
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28